

VOUCHER PRIVATIZATION IN BELARUS

BISS SA 2/2008EN-PRIV

Summary

Voucher privatization is controversial way towards private ownership. It is also widely debated theme in the transition economies. At the early stages of transition, Belarus like the majority of East-Central European states opted for voucher privatization by distributing more than 400 million 'privatization cheques'. However, it soon has been curtailed so the privatization is far from being completed, while the terms of utilizing vouchers have been extended five times. Moreover, about a half of the population has not used their cheques yet. Traditionally, low pace of privatization has been determined by the overall reluctance to transform property relations in Belarus, and the contradictions between the interests of voucher owners and the state (and enterprises and investors). However, the government has recently announced its willingness to activate privatization process and even to induce citizens to become investors via revitalized equity market. The paper explores the legal and economic aspects of voucher privatization in Belarus and traces the evolution of approaches to its actual implementation. Moreover, the recent policies of the government are critically analyzed including the measures to develop domestic equity market. Finally, the paper discusses selected economic policies that can be utilized to effectively complete protracted voucher privatization of Belarus.

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1. Introduction

Belarus like many other transition economies has opted for voucher privatization as one of the ways to transform property relations. The Law 'On Denationalization and Privatization of State Property in the Republic of Belarus' establishes that a half of the state property available for privatization has to be sold by using privatization cheques (vouchers). Next, the Law 'On Personalized Vouchers' provides an opportunity for the citizens to obtain moneyed compensation in case vouchers are not used for either reason. However, at the end of the 1990s voucher privatization in Belarus has been virtually stopped. Due to the scarce investment opportunities people have used about a half of the vouchers' stock. At the same time, there were plans to finish privatization, but the government has been continuously postponing this step.

Nevertheless, over 2007–2008, the government has displayed a renewed interest to privatization along with the attempts to develop domestic equity market, to attract foreign investment, and to improve business climate in general. Still, the government is still indecisive about the future of vouchers in Belarus. The political and economic costs of any decision are rather high.

The paper begins with tracing the history of voucher privatization (the second section deals with the evolution and legal foundations of voucher privatization in Belarus). The third section conducts a stakeholders' analysis thereby detecting the interests of various groups involved in the privatization process. The fourth section discusses the recent legal changes related to the adoption of a novel President's Decree No. 7. The final section concludes and suggests a number of policy recommendations.

2. Legal framework and evolution of voucher privatization in Belarus

2.1. The legal framework of voucher privatization

Initially, the government of Belarus relied on mass voucher privatization like many other transition countries. In 1993, a 'Law on Personalized Vouchers' was adopted. The Law stipulated that up to two-thirds of the state assets have to be turned into private ones. Next, it was envisaged that 50% of the assets available for privatization would be transferred to new owners by using vouchers (or 'privatization cheques' as the term can literally be translated from Russian to English). Workers of enterprises to be privatized were provided with the benefits in case they want to obtain shares of their companies.

Since the outset, as many as 7.8 million of Belarusian citizens (out of 10 million) have been granted a right to obtain personalized vouchers. Nevertheless, it is only 4.9 million people were actually collected them. According to the Article 13 of the Law, 'after the term of circulation of vouchers is expired, vouchers not used shall be cancelled at the place of issue or by the National Bank of the Republic of Belarus. *The state guarantees a citizen of the Republic of Belarus owning vouchers to be cancelled a compensation limited to the value of vouchers acquired by the procedure defined by the Article 7 of the existing Legislation and their price at the end of voucher's issue in the Republic of Belarus*'.

However, since 1996 onwards, economic policies in Belarus have been seriously revised. Interventionist role of the state has been strengthened, and privatization process had been slowed down, and later has been reduced to a low-profile, formal 'turning companies into joint-stock ones'¹.

¹ See 'Privatization in Belarus: Legislative Basis and Real-world Practice', available at:

In 1998, a key legislative act in the field of voucher privatization has been adopted, namely Decree No.3 along with the amendments to the Law 'On Privatization' in 1999². The amendments are rather simple. The government has been aware of the possibility that people could sell their equity to third party investors. Accordingly, a moratorium on the alienation of shares acquired by workers of enterprises or citizens in general in exchange for vouchers at the offices of 'Sberbank' was introduced. Therefore, the very economic rationale for exchanging vouchers for equity was undermined. In fact, instead of vouchers people could obtain only shares for storage only (and not sale/purchase, give as a present, etc.). Moreover, later only shares of loss-making companies were offered against the background of overall reduction of the pace of 'incorporation'. As a result, a somewhat negative attitude of the population towards vouchers has begun to grow. They have been treated as a 'meaningless piece of paper' with no value. Voucher privatization nearly came to a halt. By 2008, more than 40% of vouchers issued have not been used.

2.2. Evolution of voucher privatization in Belarus

As it has been mentioned above, over 1998–2007, the dynamics of privatization in Belarus have dramatically declined as against 1994–1996. Often, loss-making and non-strategic enterprises were privatized by using vouchers. Still, many of them do not pay any dividends on the shares issued. As a result, specialized investment funds (SIFs) created to perform a role of intermediary between investors and enterprises ceased to exist.

For instance, in 2003, only 5 funds had been operating while initially 54 funds were created. These funds were created to efficiently organize exchange of vouchers for shares of joint-stock companies. In reality, the efficiency of the SIFs activities appeared to be rather low. They were not only unable to pay any dividends to the participants, but also to cover the costs of funds' operation. On April 16, 2004, a regulation No. 09/124-413 demanded to liquidate remaining SIFs and to return vouchers to the participants. By January 1, 2006, all SIFs were liquidated, including the largest one, 'PRIF', with 60,000 participants³.

Since privatization has actually been stopped in the country, the state remains to be the principal owner of shares issued by enterprises. Nevertheless, the moratorium on the alienation of shares and the overall reluctance to get rid off the state property, workable equity market in Belarus has not been created.

On December 2002, Presidium of the Council of Ministers approved the amendments to the Law 'On Personalized Vouchers'. Moneyed compensation for vouchers unused was abolished. However, on June 26, parliamentary debates blocked this proposition and recommended to find the ways for using vouchers in the future or to guarantee moneyed compensation for the population. On December 24, 2002, the Presidium of the Council of Ministers approved the amendments to the Law 'On Personalized Vouchers' that eventually abolished the possibility to obtain moneyed compensation for the vouchers unused.

http://www.belinstitute.eu/index.php?option=com_content&task=view&id=177&Itemid=81, and also 'Privatization in Belarus: Monitoring of Legislative Changes', available at the BISS web-site.

² Декрет №3 от 20 марта 1998 г. «О разгосударствлении и приватизации государственной собственности в Республике Беларусь»

³ <http://www.gki.gov.by/inform/Infofond/sif.html>

In 2005, voucher privatization has been extended until July 30, 2007⁴. Put simply, the terms of circulation of personalized vouchers 'Property' has been extended. Finally, the government extended the terms once again (fifths time!) until June 30, 2010⁵.

The major argument of the government rests on the weakening privatization activity of the population (the vast majority of vouchers was used until 1999). Moreover, this activity was not very strong since the very beginning.

Still, the government emphasizes that voucher privatization merely means an opportunity for the population to take part in the process of privatization. Such an opportunity was formally provided for the population since 1994. Over the whole period, the list of enterprises (about 150 – 200 of them were in the list) whose shares available for exchange for vouchers. Usually, these were companies operating in such fields as machine-building, construction materials industry, light, foodstuffs, and so on.

Besides that, the provision of moneyed compensations demands additional budget expenditures that could be covered by increased tax burden (while the latter could be inflationary and thus threaten macroeconomic stability). Finally, and it is very important to mention, Belarusian companies need investment and modernization. A strategic investor option seems to be the most suitable, since it allows to collect privatization revenues and to make enterprises more efficient.

The MPs insisted that there have been few opportunities for the population to use vouchers because of the low pace of privatization. Indeed, currently the most attractive (in terms of future dividends) companies are privatized upon the agreement of the President by direct sale. Alternatively, there is a possibility to exchange vouchers for shares at some companies, but this option is secured only for employees upon the special government regulation. In addition, one of the arguments is that the legislation guarantees moneyed compensation for the unused vouchers.

It follows that the government is incapable to cancel voucher privatization. At the same time, it is unable to make this process truly efficient due to the extremely slow pace of voucher privatization prior 2007, while profitable companies could only sold for money to foreign investors.

3. Stakeholders analysis

Basically, privatization is a matter of concern for four groups. Each of them has its own interests and stakes in this process. The interests are not always compatible.

Enterprises (managers and employees) are units to maximize profitability and to maintain competitiveness. Profits grow as soon as enterprise is performing well, also due to higher productivity of labor and capital. But this requires investment into technology and equipment, skills upgrade and reduction of excessive labor force. Restructuring demands financial and material resources that typically come from new owners or investors. The latter agrees to invest as soon as there is no threat of property confiscation and controls over the company are available.

To some extent, voucher privatization creates a situation when investor's arrival could be blocked. In Belarus, this process is augmented by the state intervention at the microeconomic level. Moreover, there had been a moratorium on the circulation of shares acquired in the course of preferential privatization (see below). Until recently,

⁴ Постановление Совета министров №950 от 29 августа 2005 г.

⁵ Постановление Совета Министров Республики Беларусь № 852 «О сроках обращения именных приватизационных чеков «Имущество» от 29.06.2007 г.

this regulation restricted the opportunities for the coming of strategic investors and the restructuring of enterprises privatized.

The government (personified by the Ministry of Finance) is the second group possessing its own interests in the course of privatization. On the one hand, there is a necessity to directly and indirectly to finance and support state-owned enterprises, loss-makers in particular, thereby adversely impacting macroeconomic stabilization. It is the most likely reasons for the Ministry of Finance to be concerned about a speedy and successful restructuring of enterprise sector. Moreover, the sale of enterprises for money could bring additional budget revenues. On the other hand, it is necessary to fulfil the requirements of the existing legislation by providing compensations for the owners of vouchers unutilized. As a result, there might be a distraction of funds otherwise spent for social purposes. In sum, the government's interest is in fact about the completion of the cheque privatization since no compensation is provided in that case.

The owners of vouchers are the third group. Formally, population are neither granted a right to take part in privatization nor allowed to obtain money for vouchers unused. Still, some owners of vouchers expect monetary compensation in the future considering it as a fair substitute for the lack of suitable investment opportunities or extremely low dividends. Nevertheless, since the outset of voucher's privatization, the degree of reliance on vouchers as a source of income has been low (given that it is only 60% of citizens of Belarus were given vouchers).

Finally, there are *foreign investors*, which are the fourth group. Their concern is transparent 'rules of the game', also in the field of privatization. However, foreign investors prefer money-based privatization and acquirement of property via investment tenders and auctions. Naturally, the obtainment of the controlling stock is the first-best solution for them. Voucher privatization is not compatible to the interests of foreign investors due to its weakly specified property rights and the multitude of minority shareholders. Therefore, voucher privatization (if expanded) could divert the coming of foreign investors to Belarus.

4. The efforts to develop stock market in Belarus over 2008

The limits to voucher privatization described above have resulted in the de-facto 'freezing' of the functioning of the Belarusian stock market. Consequently, investment opportunities of enterprises have been limited, given some reduction of public investment and growing interest rates. New decisions have been required in that regard.

In 2008, Belarusian authorities have implemented some efforts to encourage domestic stock market development. In particular, a President's Decree No.7⁶ declares a gradual abolition of the moratorium on the circulation of shares of joint-stock companies set up in the course of denationalization and privatization. Second, a President's Decree No.5⁷ cuts tax rate on the incomes obtained in the course of transactions involving shares and bonds (from 40% to 24%). These measures are supposed to revitalize stock market and also to simplify the access of Belarusian companies to Western stock markets. Third, a President's Edict No. 194 allows banks to issue unsecured bonds and to conduct operations with the bonds of legal entities served by these banks. Last but not least, this regulation grants legal entities the right to issue bonds to be circulated

⁶ Decree No.7 issued on April 14, 2008 'On the Introduction of Changes and Amendments to the Decree of the President of Belarus No. 3 issued on March 20, 1998'.

⁷ Decree No.5 issued on March 20, 1998 'On the Introduction of Changes and Amendments to the Decree of the President of Belarus No. 43 issued on December 23, 1999'.

at the stock market. There is also work underway to prepare a new 'Law on Investment Funds' and the Concept of Financial Market Development in Belarus over 2008–2015.

Fourth, the Edict No. 144 adopted on March 4, 2008⁸ *liquidated the 'golden share' rule*, i.e. the right of the state to govern the activity of economic units. Although this rule was applied very selectively, its very existence has adversely affected the investment image of Belarus. As a result, international ratings tend to place the country at the bottom of respective lists of investment-friendly countries.

The government considers that as an important step to increase the inflow of foreign direct investment in the country. However, taken alone this is not a sufficient measure since further steps are required to make the country more attractive for foreign investors. Investors typically assess the business climate in a holistic fashion, considering the whole spectrum of indicators and estimates available. In Belarus, there is still a lot of barriers to private investors' activity, including pervasive administrative barriers, checks, fines, etc. against the background of the lack of efficient protection of property rights, and so on.

Currently the widely discussed measure is the abolition of the moratorium on the alienation of shares obtained in exchange for vouchers. Currently the Ministry of Economy completes a list of off-moratorium joint-stock companies so their shares could be publicly traded. This step itself is welcome, though there are some nuances.

The moratorium is to be fully abolished in three stages. *A first phase* (since July 17, 2008) concerns only companies with no state property in the statutory fund or the share of the state is 75% or more by March 31, 2008. At the same time, the moratorium is lifted for the joint-stock companies, processing agricultural products and bread-making plants.

As for the closed joint-stock companies and shares in the statutory funds of the limited liability companies and additional liability companies, the Decree No.7 stipulates that the restrictions are to be lifted since January 1, 2011. This regulation would affect a relatively large number of companies, including 'Atlant', 'Milavitsa', 'Pinskdev', and so on.

The second phase (since January 1, 2009) involves joint-stock companies where the share of the state is more than 50%, while *the third phase* (since January 1, 2011) all restrictions are to be lifted up. However, the moratorium is not to be relaxed for the companies 'securing the functioning of the strategically important branches of the economy and performing other necessary tasks'. The list of such companies is to be completed and approved by the Council of Ministers following the agreement with the President of Belarus. It has been planned to complete this list prior May 1, 2008, but the preparation is still ongoing. The State Property Fund claims that about 50 open joint-stock companies could be included in the list, such as petrochemical companies, manufacturing enterprises, electricity companies, and so on. It appears that the most attractive companies – from the investor's point of view – would remain controlled by the state.

Anyway, the Decree is an important step to create conditions for the operation of the stock market, i.e. for the circulation of shares on the stock exchange and beyond. Accordingly, shares are supposed to be traded at market prices, implying that the capitalization of companies would be made on the market-based principles.

⁸ Edict No. 144 issued on March 4, 2008 'On Expiring of Some Legislative Acts (Provisions of an Edict) issued by the President of Belarus'.

Besides a gradual abolition of the moratorium, the government plans to take its right for a preferential acquirement of the shares in the statutory funds of commercial economic units set up in the course of privatization away. It is also decided to privatize state-owned companies as soon as three-year development plan is available and approved by the government and local councils of deputies. This plan is to be used as a guide to transform selected unitary enterprises into joint-stock companies. Also, this plan would include those joint-stock companies whose shares have to be publicly offered. The Decree also abolishes the need to pass some bureaucratic procedures where company's reorganization is needed (while the company is set up prior to March 24, 1998).

At the same time, the importance of the new regulation is not to be overestimated. According to the opinions of some experts, the share of 'moratorium-covered' stock is less than 1% of the total number issued in Belarus. Accordingly, the positive effect is somewhat limited. Nevertheless, there are more important consequences such as a full or partial sale of stock owned by the state. Still, the scope of this process might be limited, while privatization would occur in a non-transparent manner.

As for vouchers, the Deputy Minister of the Economy, Mr. Oleg Melnikov⁹, said that the Belarusian legislation demands vouchers to be purchased back by the state. However, additional budgetary outlays might be required. He then referred to the experience of some CIS and East-Central European countries, where no moneyed compensation was provided for the citizens. But this opportunity is set by the legislation, so it is in the hands of the parliament to abolish that or otherwise. At the same time, in the CIS (especially Russia) and East-Central European companies, the citizens were able to exchange their vouchers for the stock of various companies, including profitable ones, such as 'Gazprom', 'EEC', and other large petrochemical, metallurgic, and manufacturing enterprises. In contrast, the citizens of Belarus have not been provided with such an opportunity.

The government plans to expand the list of joint-stock companies whose shares could be offered in exchange for vouchers via the network of 'Belarusbank' affiliates. Currently the shares of 162 companies are traded in this way, mainly loss-making and poorly performing ones. Yet, the most profitable companies are reserved, while the plans are to offer them to foreign investors for money.

5. Conclusions: some policy recommendations

The logic of market reforms and transformation of the state property claim that privatization is a first-best solution. It is better to conduct privatization somehow than not to conduct it at all. In the short run, voucher privatization had not produced positive outcomes and thus been criticized. As the experience with privatization in the transition economies show, legislative shortcomings and weak institutions allowed managers to establish controls over the process of property transformation so long-term restructuring was undermined. However, voucher privatization could still bring positive outcomes in the long run.

Over a number of years, the government of Belarus has not completed voucher privatization due to the economic (i.e. the need to provide moneyed compensation) and political reasons (i.e. the possibility of public discontent over such step). The existing plans are to finish voucher privatization in 2010. However, the continuation of the customary policies (non-transparent, nomenklatura privatization) have not allowed the population to use their vouchers effectively since the most profitable companies

⁹ <http://news.belta.by/ru/actual/comments?id=135735>

would be offered for money. As a result, the number of vouchers unused by 2010 could still be significant. Again, the completion of voucher privatization could be endangered by public discontent, which is problematic given the 2011 presidential elections. In this regard, the following measures seem to be suitable:

- Despite the possible discontent, voucher privatization has to be finished prior 2010 since it is not efficient way of privatization in Belarus *per se*; it runs against the interests of modernization and demands sizeable budget outlays as compensation;
- At the same time, large profitable companies are to be included in the list of companies whose shares could be publicly traded and exchanged for vouchers so the population could acquire these shares; however, the number of companies could be limited;
- Privatization should be transparent to population and foreign investors as well as companies and their managers; despite the numerous claims of the government, privatization has not been started in 2008. No plans are prepared so far (i.e. three-year plan, a plan for the transformation of the unitary companies into joint-stock ones); in fact, 'nomenklatura' approach to privatization discredits the efficiency of privatization and sets the preconditions for 'reprivatization', or 'nationalization' claims in the distant future;
- Stock market development in Belarus should be further encouraged.

June 2008, Belarusian Institute for Strategic Studies (BISS), Vilnius